



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

September 29, 2017

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Auditor of State Mary Mosiman today released an audit report on Appanoose County, Iowa.

The County had local tax revenue of \$14,351,669 for the year ended June 30, 2016, which included \$1,748,906 in tax credits from the state. The County forwarded \$10,010,972 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,340,697 of the local tax revenue to finance County operations, a less than 1% decrease from the prior year. Other revenues included charges for service of \$813,407, operating grants, contributions and restricted interest of \$4,353,980, capital grants, contributions and restricted interest of \$797,446 local option sales and services tax of \$561,228, hotel/motel tax of \$264,016, unrestricted investment earnings of \$21,424 and other general revenues of \$109,332.

Expenses for County operations for the year ended June 30, 2016 totaled \$10,682,132, a 16.3% increase over the prior year. Expenses included \$4,533,544 for roads and transportation, \$2,156,285 for public safety and legal services and \$875,559 for county environment and education.

A copy of the audit report is available for review in the County Auditor's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1610-0004-B00F>.

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APPANOOSE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2016

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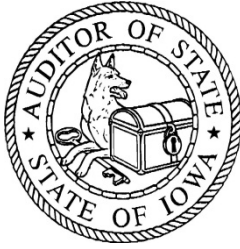
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Appanoose County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jody McDanel	Board of Supervisors	Jan 2017
Neil Smith	Board of Supervisors	Jan 2017
Mark Waits	Board of Supervisors	Jan 2019
Linda Demry	County Auditor	Jan 2017
Janet Davis	County Treasurer	Jan 2019
Teddy Walker	County Recorder	Jan 2019
Gary Anderson	County Sheriff	Jan 2017
Susan Daniels	County Attorney	Jan 2019
Michael Barth	County Assessor	Jan 2018



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Independent Auditor's Report

To the Officials of Appanoose County:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Appanoose County, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Appanoose County as of June 30, 2016, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 15 and 54 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Appanoose County's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2017 on our consideration of Appanoose County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Appanoose County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mary Mosiman". The script is cursive and fluid.

MARY MOSIMAN, CPA
Auditor of State

September 22, 2017

Appanoose County

MANAGEMENT'S DISCUSSION AND ANALYSIS

Appanoose County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- The County's governmental activities revenues decreased 6%, or approximately \$720,000, from fiscal year 2015 to fiscal year 2016. Capital grants, contributions and restricted interest decreased approximately \$1,426,000, while operating grants, contributions and restricted interest increased approximately \$789,000.
- The County's governmental activities expenses increased 16.3%, or approximately \$1,500,000, from fiscal year 2015 to fiscal year 2016. Expenses increased approximately \$959,000 in the roads and transportation function, \$406,000 in the county environment and education function, and approximately \$124,000 in the mental health function.
- The County's net position increased 2%, or approximately \$579,000, from June 30, 2015 to June 30, 2016.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Appanoose County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Appanoose County's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining financial statements provide information about activities for which Appanoose County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, the County's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents financial information on all of the County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the County's net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The County's governmental activities are presented in the Statement of Net Position and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

- 1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) A proprietary fund accounts for the County's Internal Service, Employee Group Health Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

- 3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for drainage districts, emergency management services and the County Assessor, to name a few.

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Appanoose County's net position increased from \$28,382,498 at the end of fiscal year 2015 to \$28,961,896 at the end of fiscal year 2016. The analysis that follows focuses on the changes in the net position of governmental activities.

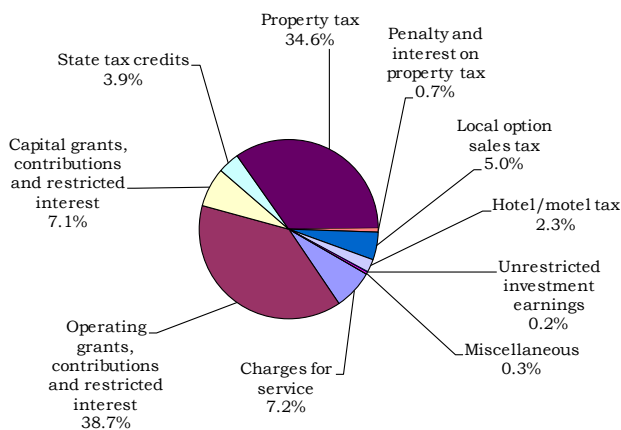
Net Position of Governmental Activities		
	June 30,	
	2016	2015
Current and other assets	\$ 14,399,698	14,354,037
Capital assets	21,524,638	21,604,321
Total assets	35,924,336	35,958,358
Deferred outflows of resources	479,469	398,969
Long-term liabilities	3,177,644	2,965,301
Other liabilities	393,315	408,926
Total liabilities	3,570,959	3,374,227
Deferred inflows of resources	3,870,950	4,600,602
Net position:		
Net investment in capital assets	21,524,638	21,604,321
Restricted	5,867,219	5,438,708
Unrestricted	1,570,039	1,339,469
Total net position	\$ 28,961,896	28,382,498

Net position of Appanoose County's governmental activities increased 2% (approximately \$29 million compared to approximately \$28.4 million). The largest portion of the County's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment). Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased from approximately \$1,339,000 at June 30, 2015 to approximately \$1,570,000 at June 30, 2016, an increase of 17.2%.

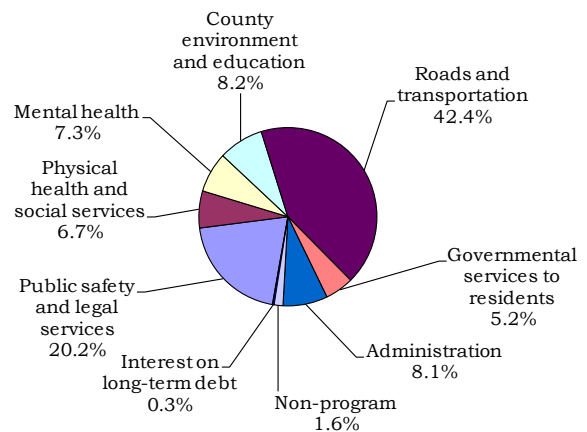
Changes in Net Position of Governmental Activities

	Year ended June 30,	
	2016	2015
Revenues:		
Program revenues:		
Charges for service	\$ 813,407	765,593
Operating grants, contributions and restricted interest	4,353,980	3,565,260
Capital grants, contributions and restricted interest	797,446	2,223,932
General revenues:		
Property tax	3,898,089	3,979,353
Penalty and interest on property tax	74,270	81,448
State tax credits	442,608	370,719
Local option sales tax	561,228	617,942
Hotel/motel tax	264,016	237,651
Unrestricted investment earnings	21,424	15,596
Gain on disposition of assets	3,675	29,213
Miscellaneous	31,387	94,836
Total revenues	<u>11,261,530</u>	<u>11,981,543</u>
Program expenses:		
Public safety and legal services	2,156,285	2,045,321
Physical health and social services	717,613	850,241
Mental health	776,224	651,786
County environment and education	875,559	469,109
Roads and transportation	4,533,544	3,574,356
Governmental services to residents	559,176	455,277
Administration	868,467	893,704
Non-program	167,415	172,718
Interest on long-term debt	27,849	69,211
Total expenses	<u>10,682,132</u>	<u>9,181,723</u>
Change in net position	579,398	2,799,820
Net position beginning of year	<u>28,382,498</u>	<u>25,582,678</u>
Net position end of year	<u>\$ 28,961,896</u>	<u>28,382,498</u>

Revenues by Source



Expenses by Program



Appanoose County's governmental activities net position increased approximately \$579,000. Revenues for governmental activities decreased approximately \$720,000 from the prior year. Capital grants, contributions and restricted revenues decreased from the prior year approximately \$1,426,000 while operating grants, contributions and restricted revenues increased over the prior year approximately \$789,000.

For fiscal year 2016, taxable property valuation increased approximately \$3,666,000 and the tax levy rate decreased \$0.07971 per \$1,000 of taxable valuation. Therefore, property tax revenue decreased approximately \$81,000. The total Appanoose County assessed taxable property valuation for property tax payable in fiscal year 2017 decreased approximately \$12,773,000. The tax levy rate is set to decrease \$0.09229 per \$1,000 of taxable valuation. Property tax revenue is budgeted to decrease approximately \$179,000 next year.

The cost of all governmental activities this year was approximately \$10.7 million compared to approximately \$9.2 million last year. However, as shown in the Statement of Activities on page 19, the amount taxpayers ultimately financed for these projects was approximately \$4.7 million because some of the cost was paid by those directly benefited from the programs (approximately \$813,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$5,151,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$6,555,000 to approximately \$5,965,000, principally due to receiving grant proceeds for the completion of several infrastructure projects in fiscal year 2015. The County paid for the remaining "public benefit" portion of governmental activities with taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Appanoose County completed the year, its governmental funds reported a combined fund balance of approximately \$9.9 million, an increase of approximately \$82,000 from last year's total of approximately \$9.8 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures remained consistent when compared to the prior year. The ending fund balance increased \$53,676 during the year to \$6,061,196.
- The County has continued to look for ways to effectively manage the cost of mental health services. Revenues decreased approximately \$124,000, or 19.5%, from the prior year. Expenditures increased approximately \$124,000, or 19.1%, over the prior year. The Special Revenue, Mental Health Fund balance decreased \$264,833 during the year to \$310,943.
- Special Revenue, Rural Services Fund revenues and expenditures remained consistent when compared to the prior year. The fund balance decreased \$50,443 from the prior year to \$634,743.
- Special Revenue, Secondary Roads Fund revenues increased approximately \$422,000, or 14.2%, primarily due to an increase in intergovernmental revenues. Expenditures increased approximately \$673,000, or 21.9%, over the prior year primarily due to an increase in roadway maintenance as the County upgrades the condition of the County roadway system. The fund balance at June 30, 2016 was \$2,431,518 compared to the prior year ending fund balance of \$2,092,039, an increase of \$339,479.

BUDGETARY HIGHLIGHTS

Over the course of the year, Appanoose County amended its budget two times. The first amendment resulted in an increase in intergovernmental receipts and increases in budgeted disbursements for the mental health and government services to residents' functions. The increases are related to increased mental health services and voting machines purchases. The second amendment resulted in an increase in other county tax receipts and increases in budgeted disbursements for the roads and transportation function and the county environment and education function expenses. The increases are related to additional disbursements in the Secondary Roads and Conservation departments.

The County's total receipts were \$730,783 more than budgeted, a variance of 8.2%. The most significant variance resulted from the County receiving more in road use tax receipts than anticipated.

Total disbursements were \$1,760,807 less than the amended budget. Actual disbursements for the roads and transportation, public safety and legal services and physical health and social services functions were \$800,820, \$300,397 and \$231,151, respectively, less than budgeted. This was primarily due to construction projects not being completed as anticipated during the fiscal year, the County budgeting for more inmates than were actually incarcerated and the County budgeting more for health administration disbursements than were actually incurred.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, Appanoose County had approximately \$21.5 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges.

Capital Assets of Governmental Activities at Year End		
	June 30,	
	2016	2015
Land	\$ 598,093	510,293
Buildings and improvements	1,520,205	1,452,712
Equipment and vehicles	2,563,760	2,719,291
Infrastructure	16,778,802	14,615,833
Construction in progress	63,778	2,306,192
Total	<u>\$ 21,524,638</u>	<u>21,604,321</u>
This year's major additions included:		
Capital assets contributed by the		
Iowa Department of Transportation	<u>\$ 745,797</u>	

The County had depreciation expense of \$1,241,090 in fiscal year 2016 and total accumulated depreciation of \$9,998,584 at June 30, 2016. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2016, Appanoose County had \$1,020,483 of long-term debt outstanding, compared to \$1,146,825 at June 30, 2015, as shown below.

Outstanding Debt of Governmental Activities at Year-End		
	June 30,	
	2016	2015
Honey Creek loan	\$ 110,483	156,825
General obligation refunding capital loan notes	910,000	990,000
Total	\$ 1,020,483	1,146,825

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Appanoose County's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$33 million. Additional information about the County's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

From fiscal year 2015 to fiscal year 2016, the countywide property taxable valuation increased approximately \$3,666,000 while the rural services property taxable valuation increased approximately \$135,000. From fiscal year 2016 to fiscal year 2017, the countywide property taxable valuation decreased approximately \$12,773,000 while the rural services property taxable valuation decreased approximately \$10,073,000.

These factors were taken into account when adopting the budget for fiscal year 2017. Amounts available for appropriation in the operating budget are approximately \$9,567,000, a 7% increase over the final fiscal year 2016 budget. Budgeted disbursements decreased approximately \$723,000 from the final fiscal year 2016 budget, primarily in the roads and transportation function. The County has added no major new programs or initiatives to the fiscal year 2017 budget. If these estimates are realized, the County's budgetary operating balance is expected to increase 19.7% by the close of fiscal year 2017.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Appanoose County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Appanoose County Auditor's Office, 201 N 12th Street, Centerville, Iowa 52544.

Appanoose County

Basic Financial Statements

Appanoose County
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash, cash equivalents and pooled investments:	
County Treasurer	\$ 8,319,015
Conservation Foundation	66,837
Receivables:	
Property tax:	
Delinquent	31,652
Succeeding year	3,623,000
Interest and penalty on property tax	49,556
Accounts	23,449
Loans	1,060,000
Accrued interest	1,604
Due from other governments	652,174
Inventories	417,215
Prepaid expenses	155,196
Capital assets, net of accumulated depreciation	<u>21,524,638</u>
Total assets	<u>35,924,336</u>
Deferred Outflows of Resources	
Pension related deferred outflows	<u>479,469</u>
Liabilities	
Accounts payable	295,844
Salaries and benefits payable	66,963
Accrued interest payable	1,944
Due to other governments	28,564
Long-term liabilities:	
Portion due or payable within one year:	
Honey Creek loan	48,021
General obligation refunding capital loan notes	85,000
Compensated absences	152,829
Portion due or payable after one year:	
Honey Creek loan	62,462
General obligation refunding capital loan notes	825,000
Compensated absences	92,608
Net OPEB liability	106,600
Net pension liability	<u>1,805,124</u>
Total liabilities	<u>3,570,959</u>
Deferred Inflows of Resources	
Unavailable property tax revenue	3,623,000
Pension related deferred inflows	<u>247,950</u>
Total deferred inflows of resources	<u>3,870,950</u>
Net Position	
Net investment in capital assets	21,524,638
Restricted for:	
Supplemental levy purposes	1,979,571
Mental health purposes	313,426
Rural services purposes	616,186
Secondary roads purposes	2,460,886
Other purposes	497,150
Unrestricted	<u>1,570,039</u>
Total net position	<u>\$ 28,961,896</u>
See notes to financial statements.	

Appanoose County
Statement of Activities
Year ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Expenses					
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 2,156,285	192,252	99,028	-	(1,865,005)
Physical health and social services	717,613	58,320	380,968	-	(278,325)
Mental health	776,224	5,321	-	-	(770,903)
County environment and education	875,559	53,238	484,304	-	(338,017)
Roads and transportation	4,533,544	58,211	3,338,220	797,446	(339,667)
Governmental services to residents	559,176	252,446	-	-	(306,730)
Administration	868,467	27,538	140	-	(840,789)
Non-program	167,415	166,081	11	-	(1,323)
Interest on long-term debt	27,849	-	51,309	-	23,460
Total	\$ 10,682,132	813,407	4,353,980	797,446	(4,717,299)
General Revenues:					
Property and other county tax					3,898,089
levied for general purposes					74,270
Penalty and interest on property tax					442,608
State tax credits					561,228
Local option sales and services tax					264,016
Hotel/motel tax					21,424
Unrestricted investment earnings					3,675
Gain on disposition of capital assets					31,387
Miscellaneous					5,296,697
Total general revenues					579,398
Change in net position					28,382,498
Net position beginning of year					\$ 28,961,896
Net position end of year					
See notes to financial statements.					

Appanoose County
Balance Sheet
Governmental Funds

June 30, 2016

			Special
	General	Mental Health	Rural Services
Assets			
Cash, cash equivalents and pooled investments:			
County Treasurer	\$ 5,027,881	314,045	581,510
Conservation Foundation	-	-	-
Receivables:			
Property tax:			
Delinquent	23,844	3,743	4,065
Succeeding year	2,550,000	400,000	673,000
Interest and penalty on property tax	49,556	-	-
Accounts	22,328	-	-
Loan	910,000	-	-
Accrued interest	1,604	-	-
Due from other governments	122,023	-	56,724
Inventories	-	-	-
Prepaid expenditures	155,196	-	-
Total assets	\$ 8,862,432	717,788	1,315,299
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 68,082	2,392	437
Salaries and benefits payable	28,003	710	3,054
Due to other governments	18,745	-	-
Total liabilities	114,830	3,102	3,491
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	2,550,000	400,000	673,000
Other	136,406	3,743	4,065
Total deferred inflows of resources	2,686,406	403,743	677,065
Fund balances:			
Nonspendable:			
Inventories	-	-	-
Prepaid expenditures	155,196	-	-
Restricted for:			
Supplemental levy purposes	1,867,161	-	-
Mental health purposes	-	310,943	-
Rural services purposes	-	-	634,743
Secondary roads purposes	-	-	-
Debt service	910,000	-	-
Other purposes	-	-	-
Unassigned	3,128,839	-	-
Total fund balances	6,061,196	310,943	634,743
Total liabilities, deferred inflows of resources and fund balances	\$ 8,862,432	717,788	1,315,299

See notes to financial statements.

Revenue		
Secondary Roads	Nonmajor	Total
2,015,504	274,370	8,213,310
-	66,837	66,837
-	-	31,652
-	-	3,623,000
-	-	49,556
875	246	23,449
-	150,000	1,060,000
-	-	1,604
450,102	23,325	652,174
417,215	-	417,215
-	-	155,196
2,883,696	514,778	14,293,993
207,740	11,122	289,773
35,196	-	66,963
3,313	6,506	28,564
246,249	17,628	385,300
-	-	3,623,000
205,929	4,417	354,560
205,929	4,417	3,977,560
417,215	-	417,215
-	-	155,196
-	-	1,867,161
-	-	310,943
-	-	634,743
2,014,303	-	2,014,303
-	-	910,000
-	492,733	492,733
-	-	3,128,839
2,431,518	492,733	9,931,133
2,883,696	514,778	14,293,993

Appanoose County

Appanoose County

Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Position

June 30, 2016

Total governmental fund balances (page 21) \$ 9,931,133

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$31,523,222 and the accumulated depreciation is \$9,998,584.

21,524,638

Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.

354,560

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Position.

99,634

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental fund, as follows:

Deferred outflows of resources

\$ 479,469

Deferred inflows of resources

(247,950)

231,519

Long-term liabilities, including loans, bonds, notes, compensated absences, other postemployment benefits, net pension liability and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.

(3,179,588)

Net position of governmental activities (page 18)

\$ 28,961,896

See notes to financial statements.

Appanoose County

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2016

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,903,951	450,547	715,580	-
Local option sales and services tax	-	-	336,736	112,245
Interest and penalty on property tax	70,040	-	-	-
Intergovernmental	912,442	55,787	117,037	3,240,066
Licenses and permits	590	-	-	3,600
Charges for service	423,797	-	4,916	296
Use of money and property	21,424	-	-	-
Miscellaneous	52,252	5,320	-	29,045
Total revenues	4,384,496	511,654	1,174,269	3,385,252
Expenditures:				
Operating:				
Public safety and legal services	1,639,884	-	425,298	-
Physical health and social services	689,769	-	42,000	-
Mental health	-	776,487	-	-
County environment and education	447,509	-	56,922	-
Roads and transportation	-	-	-	3,629,236
Governmental services to residents	575,376	-	-	-
Administration	877,579	-	-	-
Debt service	100,703	-	-	-
Capital projects	-	-	-	117,029
Total expenditures	4,330,820	776,487	524,220	3,746,265
Excess (deficiency) of revenues over (under) expenditures	53,676	(264,833)	650,049	(361,013)
Other financing sources (uses):				
Transfers in	-	-	-	700,492
Transfers out	-	-	(700,492)	-
Total other financing sources (uses)	-	-	(700,492)	700,492
Change in fund balances	53,676	(264,833)	(50,443)	339,479
Fund balances beginning of year	6,007,520	575,776	685,186	2,092,039
Fund balances end of year	\$ 6,061,196	310,943	634,743	2,431,518

See notes to financial statements.

Nonmajor	Total
89,466	4,159,544
112,247	561,228
-	70,040
137,030	4,462,362
-	4,190
34,980	463,989
3,007	24,431
340,744	427,361
717,474	10,173,145
71,312	2,136,494
-	731,769
-	776,487
408,224	912,655
-	3,629,236
2,000	577,376
-	877,579
231,677	332,380
-	117,029
713,213	10,091,005
4,261	82,140
-	700,492
-	(700,492)
-	-
4,261	82,140
488,472	9,848,993
492,733	9,931,133

Appanoose County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances –
Governmental Funds to the Statement
of Activities

Year ended June 30, 2016

Change in fund balances - Total governmental funds (page 25) \$ 82,140

***Amounts reported for governmental activities in the Statement of
Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 411,935	
Capital assets contributed by the Iowa Department of Transportation	745,797	
Depreciation expense	<u>(1,241,090)</u>	(83,358)

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources.

3,675

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds, as follows:

Property tax	2,561	
Other	<u>175,892</u>	178,453

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

304,342

The current year County employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position.

300,968

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	13,966	
Other postemployment benefits	(33,800)	
Pension expense	(180,667)	
Interest on long-term debt	<u>189</u>	(200,312)

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities.

(6,510)

Change in net position of governmental activities (page 19)

\$ 579,398

See notes to financial statements.

Appanoose County
Statement of Net Position
Proprietary Fund
June 30, 2016

	<u>Internal Service - Employee Group Health</u>
Assets	
Cash and cash equivalents	\$ 105,705
Liabilities	
Accounts payable	<u>6,071</u>
Net Position	
Unrestricted	<u>\$ 99,634</u>

See notes to financial statements.

Appanoose County
Statement of Revenues, Expenses and
Changes in Fund Net Position
Proprietary Fund

Year ended June 30, 2016

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Contributions from operating funds		\$ 685,717
Reimbursements from employees and others		125,936
Refunds		<u>34</u>
Total operating revenues		811,687
Operating expenses:		
Medical and health services	\$ 802,657	
Supplemental insurance	15,523	
Miscellaneous	<u>28</u>	<u>818,208</u>
Operating loss		(6,521)
Non-operating revenues:		
Interest income		<u>11</u>
Net loss		(6,510)
Net position beginning of year		<u>106,144</u>
Net position end of year		<u><u>\$ 99,634</u></u>

See notes to financial statements.

Appanoose County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2016

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 685,717
Cash received from employees and others	125,936
Cash received from refunds	34
Cash paid to suppliers for services	<u>(821,327)</u>
Net cash used by operating activities	(9,640)
Cash flows from investing activities:	
Interest on investments	<u>11</u>
Decrease in cash and cash equivalents	(9,629)
Cash and cash equivalents beginning of year	<u>115,334</u>
Cash and cash equivalents end of year	<u>\$ 105,705</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (6,521)
Adjustment to reconcile operating loss to net cash used by operating activities:	
Decrease in accounts payable	<u>(3,119)</u>
Net cash used by operating activities	<u>\$ (9,640)</u>

See notes to financial statements.

Appanoose County

Appanoose County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2016

Assets

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 1,159,916
Other County officials	61,947

Receivables:

Property tax:

Delinquent	90,513
Succeeding year	8,704,000
Accounts	253
Assessments	7,128

Due from other governments	43,002
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Total assets10,066,759**Liabilities**

Salaries and benefits payable	586
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Due to other governments	9,931,520
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Trusts payable	124,703
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Compensated absences	9,950
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Total liabilities10,066,759**Net position**\$ -

See notes to financial statements.

Appanoose County

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

Appanoose County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Appanoose County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

These financial statements present Appanoose County (the primary government) and its component unit. The component unit discussed below is included in the County's reporting entity because of the significance of its operational or financial relationship with the County.

Blended Component Unit – The Conservation Foundation is legally separate from the County, but it is so intertwined with the County it is, in substance, the same as the County. It is reported as part of the County and blended into the Special Revenue Funds.

The Conservation Foundation was incorporated under Chapter 504A of the Code of Iowa to solicit and accept gifts from persons or organizations for the development and enhancement of environmental education and conservation projects. These donations are to be used to purchase items which are not included in the County's budget. Financial information of the Foundation can be obtained from the Appanoose County Conservation Office.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Appanoose County Assessor's Conference Board and Appanoose County Joint E-911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Appanoose County Service Agency, South Iowa Area Detention Service Agency, Rathbun Area Solid Waste Management Commission, ADLM Emergency Management, ADLM Counties Environmental Public Health Agency, ADLM Facilities Management Systems Commission and South Iowa Area Crime Commission Service Agency.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Position presents the County's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributes to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, the proprietary fund and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues to be used to fund mental health, intellectual disabilities and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the road use tax allocation from the State of Iowa, required transfers from the General Fund and the Special Revenue, Rural Services Fund and other revenues to be used for secondary road construction and maintenance.

Additionally, the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for the Internal Service Fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking, is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2015.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, furniture, and equipment and intangibles are reported in the governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire the capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 50,000
Land, buildings and improvements	25,000
Intangibles	25,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	40-50
Building improvements	20-50
Infrastructure	10-65
Intangibles	5-20
Equipment	2-20
Vehicles	3-10

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the County's reporting period.

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, death or retirement. Accumulated sick leave is generally paid upon retirement and shall not exceed 90 days or a total of \$2,000 for noncontract employees at least age 62 and \$4,000 for Secondary Roads contract employees. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2016. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to governmental activities will be paid primarily by the General Fund and Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable that will not be recognized until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law

Unassigned – All amounts not included in the preceding classifications.

Net Position – The net position of the Internal Service, Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash, Cash Equivalents and Pooled Investments

The County's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2016, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,404,664 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The investment in the IPAIT is unrated.

The County had no other investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement. No. 72.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 700,492</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 510,293	87,800	-	598,093
Construction in progress, road network	2,306,192	761,474	(3,003,888)	63,778
Total capital assets not being depreciated	2,816,485	849,274	(3,003,888)	661,871
Capital assets being depreciated:				
Buildings	1,871,161	106,789	-	1,977,950
Improvements other than buildings	54,400	-	-	54,400
Equipment and vehicles	5,874,599	219,554	(66,903)	6,027,250
Infrastructure, other	1,109,642	-	-	1,109,642
Infrastructure, road network	18,692,474	2,999,635	-	21,692,109
Total capital assets being depreciated	27,602,276	3,325,978	(66,903)	30,861,351
Less accumulated depreciation for:				
Buildings	469,222	35,669	-	504,891
Improvements other than buildings	3,627	3,627	-	7,254
Equipment and vehicles	3,155,308	365,128	(56,946)	3,463,490
Infrastructure, other	376,507	26,752	-	403,259
Infrastructure, road network	4,809,776	809,914	-	5,619,690
Total accumulated depreciation	8,814,440	1,241,090	(56,946)	9,998,584
Total capital assets being depreciated, net	18,787,836	2,084,888	(9,957)	20,862,767
Governmental activities capital assets, net	\$ 21,604,321	2,934,162	(3,013,845)	21,524,638

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 91,234
Physical health and social services	324
County environment and education	54,823
Roads and transportation	1,084,893
Administration	9,816
Total depreciation expense - governmental activities	<u>\$ 1,241,090</u>

(5) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2016 is as follows:

Fund	Description	Amount
General	Services	\$ 18,745
Special Revenue:		
Secondary Roads	Services	3,313
Economic Development	Services	6,506
		<u>9,819</u>
Total for governmental funds		<u>\$ 28,564</u>
Agency:		
Agricultural Extension Education	Collections	\$ 106,487
County Assessor		338,937
Schools		5,589,498
Community Colleges		335,962
Corporations		2,355,486
Townships		362,945
Auto License and Use Tax		284,677
ADLM Empowerment		124,684
All other		<u>432,844</u>
Total for agency funds		<u>\$ 9,931,520</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Honey Creek Loan	General Obligation Refunding Capital Loan Notes	Conservation Foundation Loans	Compen- sated Absences	Other Post- employment Benefits	Net Pension Liability	Total
Balance beginning of year	\$ 156,825	990,000	178,000	259,403	72,800	1,308,273	2,965,301
Increases	-	-	-	162,610	33,800	496,851	693,261
Decreases	46,342	80,000	178,000	176,576	-	-	480,918
Balance end of year	<u>\$ 110,483</u>	<u>910,000</u>	<u>-</u>	<u>245,437</u>	<u>106,600</u>	<u>1,805,124</u>	<u>3,177,644</u>
Due within one year	<u>\$ 48,021</u>	<u>85,000</u>	<u>-</u>	<u>152,829</u>	<u>-</u>	<u>-</u>	<u>285,850</u>

Honey Creek Loan

In March 2008, the County entered into a loan agreement with Iowa Trust and Savings Bank for \$400,000, of which \$357,250 was remitted to the Iowa Department of Natural Resources and \$42,750 was remitted to Rathbun Lake Resort, Inc. to be deposited in a separate account. Principal and interest is payable in 35 equal quarterly installments of \$13,613 beginning on June 1, 2009. On January 15, 2012, the County refinanced the loan with interest at 3.5% per annum and a maturity date of July 15, 2018.

A summary of the County's June 30, 2016 Honey Creek loan indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2017	3.50%	\$ 48,021	3,288	51,309
2018	3.50	49,747	1,561	51,308
2019	3.50	12,715	112	12,827
Total		\$ 110,483	4,961	115,444

The County plans to use hotel/motel tax revenue to repay this debt.

Refunding Capital Loan Notes

On May 2, 2013, the County issued \$990,000 of general obligation refunding capital loan notes, with interest at rates ranging from 0.80% to 3.30% per annum, for the Rathbun Area Solid Waste Management Commission (RASWMC). The notes will be paid from the General Fund from the loan repayments from RASWMC, as discussed in Note 7 of the Notes to the Financial Statements. A summary of the County's June 30, 2016 refunding capital loan note indebtedness is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2017	0.80%	\$ 85,000	19,463	104,463
2018	1.25	80,000	18,782	98,782
2019	1.25	85,000	17,783	102,783
2020	1.70	85,000	16,720	101,720
2021	1.70	85,000	15,275	100,275
2022-2026	2.00-3.30	460,000	47,475	507,475
2027	3.30	30,000	990	30,990
Total		\$ 910,000	136,488	1,046,488

Conservation Foundation Bank Loans

On August 22, 2014, the Conservation Foundation borrowed \$178,000 for construction of two cabins at Lelah Bradley Park. The interest rate on the loans is 4.0% per annum with an initial maturity date of March 1, 2015. The maturity date for the loans was extended to July 22, 2015. In July 2015, the Conservation Foundation paid the principal balance and accrued interest on the loan, retiring the obligation.

(7) Loans Receivable

The County entered into an agreement with RASWMC for the loan of note proceeds detailed in Note 6 of the Notes to the Financial Statements. Under the agreement, the RASWMC is to make annual payments to the County equal to the annual note payments required on the revenue notes. The annual principal and interest payments from RASWMC are credited to the General Fund.

The County entered into an economic development agreement with RMA Armament, Inc. on April 18, 2016 for a loan of \$150,000. Under the agreement, RMA Armament, Inc. is to repay the loan at a rate of 3.00% per annum over ten years, based on the following schedule:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2017	3.00%	\$ 13,061	4,322	17,383
2018	3.00	13,458	3,924	17,382
2019	3.00	13,867	3,515	17,382
2020	3.00	14,281	3,102	17,383
2021	3.00	14,723	2,659	17,382
2022-2026	3.00	80,610	6,303	86,913
Total		\$ 150,000	23,825	173,825

(8) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the County, except for those covered by another retirement system. Employees of the County are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Sheriffs, deputies and protection occupation members may retire at normal retirement age, which is generally at age 55. Sheriffs, deputies and protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment. The formula used to calculate a sheriff's, deputy's or protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contributions rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the County contributed 8.93% for a total rate of 14.88%. The Sheriff, deputies and the County each contributed 9.88% of covered payroll, for a total rate of 19.76%. Protection occupation members contributed 6.56% of covered payroll and the County contributed 9.84% of covered payroll, for a total rate of 16.40%.

The County's contributions to IPERS for the year ended June 30, 2016 totaled \$300,968.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the County reported a liability of \$1,805,124 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the County's proportion was 0.036537%, which was an increase of 0.003549% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the County recognized pension expense of \$180,667. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 27,061	19,344
Changes of assumptions	49,313	14,367
Net difference between projected and actual earnings on IPERS' investments	-	200,139
Changes in proportion and differences between County contributions and proportionate share of contributions	102,127	14,100
County contributions subsequent to the measurement date	300,968	-
Total	\$ 479,469	247,950

\$300,968 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Amount
2017	\$ (63,781)
2018	(63,781)
2019	(63,781)
2020	116,407
2021	5,487
Total	\$ (69,449)

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the County will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
County's proportionate share of the net pension liability (asset):	\$ 3,604,015	1,805,124	288,312

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS – All legally required County contributions and legally required employee contributions which had been withheld from employee wages were remitted by the County to IPERS by June 30, 2016.

(9) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 66 active and 1 retired members in the plan.

The medical/prescription drug coverage is provided through a partially self-funded plan administered by Auxiant. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The County’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the County’s annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the County’s net OPEB obligation:

Annual required contribution	\$ 33,800
Interest on net OPEB obligation	2,900
Adjustment to annual required contributions	<u>(2,900)</u>
Annual OPEB cost	33,800
Contribution made	<u>-</u>
Increase in net OPEB obligation	33,800
Net OPEB obligation beginning of year	<u>72,800</u>
Net OPEB obligation end of year	<u>\$ 106,600</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the County contributed \$0 to the medical plan. Plan members eligible for benefits contributed \$203, or 100% of the premium costs.

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 24,800	88.7%	\$ 72,000
2015	24,800	96.8	72,800
2016	33,800	0.0	106,600

Funded Status and Funding Progress – As of July 1, 2016 the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$225,093, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$225,093. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,444,000 and the ratio of UAAL to covered payroll was 6.5%. As of June 30, 2016, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2016 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the County's funding policy. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RPH2015 Group Annuity Mortality Table, fully generational using Scale AA. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2016 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2016.

Projected claim costs of the medical plan are \$1,350 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) Risk Management

The County is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the partial self-funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with Auxiant. The agreement is subject to automatic renewal provisions. The County assumes liability for claims between \$500 and \$1,500 for single coverage and \$1,000 and \$3,000 for family coverage. Claims in excess of the deductibles are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Auxiant from the Employee Group Health Fund. The County's contribution to the fund for the year ended June 30, 2016 was \$685,717.

Amounts payable from the Employee Group Health Fund at June 30, 2016 total \$6,071, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims and to establish a reserve for catastrophic losses. That reserve was \$99,634 at June 30, 2016 and is reported as a designation of the Internal Service, Employee Group Health Fund net position. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liabilities for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 9,190
Incurred claims (including claims incurred but not reported at June 30, 2016)	802,657
Payments on claims during the fiscal year	<u>(805,776)</u>
Unpaid claims end of year	<u>\$ 6,071</u>

(12) Early Childhood Iowa Area Board

Appanoose County is the fiscal agent for the 4 Counties 4 Kids Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. The Area Board receives state grants to administer early childhood and school ready programs. Financial transactions of the Area Board are included in the County's financial statements as part of the Agency Funds because of the County's fiduciary relationship with the organization. The Area Board's financial data for the year ended June 30, 2016 is as follows:

	Early Childhood	School Ready	Total
Revenues:			
State grants:			
Early childhood	\$ 66,655	-	66,655
Family support and parent education	-	260,511	260,511
Preschool support for low-income families	-	114,383	114,383
Quality improvement	-	54,991	54,991
Allocation for administration	3,508	14,146	17,654
Other grant programs	-	27,696	27,696
Total state grants	70,163	471,727	541,890
Interest on investments	4	-	4
Total revenues	70,167	471,727	541,894
Expenditures:			
Program services:			
Early childhood	76,189	-	76,189
Family support and parent education	-	271,149	271,149
Preschool support for low income families	-	116,834	116,834
Quality improvement	-	63,736	63,736
Other program services	-	12,832	12,832
Total program services	76,189	464,551	540,740
Administration	3,701	13,914	17,615
Total expenditures	79,890	478,465	558,355
Change in fund balance	(9,723)	(6,738)	(16,461)
Fund balance beginning of year	12,240	61,489	73,729
Fund balance end of year	\$ 2,517	54,751	57,268

Findings related to the operations of the Early Childhood Iowa Area Board are included as items (10) and (11) in the Schedule of Findings.

(13) Appanoose County Financial Information Included in the South Central Behavioral Health Region

South Central Behavioral Health Region, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa which became effective July 1, 2013, included the following member counties: Appanoose, Davis and Wapello County. Mahaska County was added to the region in October 2015. The financial activity of Appanoose County's Special Revenue, Mental Health Fund is included in the South Central Behavioral Health Region for the year ended June 30, 2016 as follows:

Revenues:		
Property and other county tax		\$ 450,547
Intergovernmental revenues:		
State tax credits	\$ 55,313	
Other	474	55,787
Miscellaneous		5,320
Total revenues		511,654
Expenditures:		
Services to persons with:		
Mental illness	141,222	
Intellectual disability	2,000	
Other developmental disabilities	1,000	
Brain injury	1,000	145,222
General administration		
Direct administration	21,338	
Distribution to regional fiscal agent	609,927	631,265
Total expenditures		776,487
Excess of expenditures over revenues		(264,833)
Fund balance beginning of the year		575,776
Fund balance end of the year		\$ 310,943

(14) New Accounting Pronouncement

The County adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Appanoose County

Required Supplementary Information

Appanoose County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2016

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 4,721,670	-	4,721,670
Interest and penalty on property tax	67,551	-	67,551
Intergovernmental	4,445,051	101,076	4,343,975
Licenses and permits	3,825	-	3,825
Charges for service	441,125	32,415	408,710
Use of money and property	24,375	3,000	21,375
Miscellaneous	367,876	289,435	78,441
Total receipts	10,071,473	425,926	9,645,547
Disbursements:			
Public safety and legal services	2,131,862	-	2,131,862
Physical health and social services	742,900	-	742,900
Mental health	808,072	-	808,072
County environment and education	976,408	181,307	795,101
Roads and transportation	3,571,180	-	3,571,180
Governmental services to residents	577,131	-	577,131
Administration	908,506	-	908,506
Debt service	332,380	180,368	152,012
Capital projects	117,029	-	117,029
Total disbursements	10,165,468	361,675	9,803,793
Excess (deficiency) of receipts over (under) disbursements	(93,995)	64,251	(158,246)
Other financing sources, net	152,012	-	152,012
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	58,017	64,251	(6,234)
Balance beginning of year	8,222,130	2,586	8,219,544
Balance end of year	\$ 8,280,147	66,837	8,213,310

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
4,667,684	4,700,684	20,986
11,000	11,000	56,551
3,728,059	3,740,270	603,705
3,150	3,150	675
357,845	364,245	44,465
13,005	13,005	8,370
80,610	82,410	(3,969)
8,861,353	8,914,764	730,783
2,432,259	2,432,259	300,397
965,051	975,051	232,151
724,802	814,802	6,730
839,035	986,401	191,300
3,797,000	4,372,000	800,820
569,483	619,483	42,352
1,035,494	1,035,494	126,988
152,310	154,110	2,098
175,000	175,000	57,971
10,690,434	11,564,600	1,760,807
(1,829,081)	(2,649,836)	2,491,590
101,000	101,000	51,012
(1,728,081)	(2,548,836)	2,542,602
6,940,572	6,940,572	1,278,972
5,212,491	4,391,736	3,821,574

Appanoose County

Appanoose County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
Required Supplementary Information

Year ended June 30, 2016

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 10,071,473	101,672	10,173,145
Expenditures	10,165,468	(74,463)	10,091,005
Net	(93,995)	176,135	82,140
Other financing sources, net	152,012	(152,012)	-
Beginning fund balances	8,222,130	1,626,863	9,848,993
Ending fund balances	<u>\$ 8,280,147</u>	<u>1,650,986</u>	<u>9,931,133</u>

See accompanying independent auditor's report.

Appanoose County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2016

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit, the Internal Service Fund and the Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$874,166. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E-911 System by the Joint E-911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

Appanoose County

Schedule of the County's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Required Supplementary Information

	2016	2015
County's proportion of the net pension liability	0.036537%	0.032988%
County's proportionate share of the net pension liability	\$ 1,805	1,308
County's covered-employee payroll	\$ 3,177	2,934
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.81%	44.58%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See accompanying independent auditor's report.

Appanoose County

Schedule of County Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Required Supplementary Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 301	291	271	258
Contributions in relation to the statutorily required contribution	(301)	(291)	(271)	(258)
Contribution deficiency (excess)	\$ -	-	-	-
County's covered-employee payroll	\$ 3,292	3,177	2,934	2,873
Contributions as a percentage of covered-employee payroll	9.14%	9.16%	9.24%	8.98%

See accompanying independent auditor's report.

Appanoose County

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Appanoose County
Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	-	\$ 185	185	0.0%	\$ 2,950	6.3%
2011	Jul 1, 2009	-	185	185	0.0	3,024	6.1
2012	Jul 1, 2009	-	185	185	0.0	3,057	6.1
2013	Jul 1, 2012	-	245	245	0.0	2,645	9.3
2014	Jul 1, 2012	-	245	245	0.0	2,951	8.3
2015	Jul 1, 2012	-	245	245	0.0	3,342	7.3
2016	Jul 1, 2016	-	225	225	0.0	3,444	6.5

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Appanoose County

Supplementary Information

Appanoose County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2016

	Special		
	County Recorder's Records Management	Resource Enhancement and Protection	Law Enforcement Forfeiture
Assets			
Cash, cash equivalents and pooled investments:			
County Treasurer	\$ 9,167	21,188	1,635
Conservation Foundation	-	-	-
Accounts receivable	246	-	-
Loan receivable	-	-	-
Due from other governments	-	-	-
Total assets	\$ 9,413	21,188	1,635
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ -	-	-
Due to other governments	-	-	-
Total liabilities	-	-	-
Deferred inflows of resources:			
Unavailable revenues:			
Other	-	-	-
Fund balance:			
Restricted for other purposes	9,413	21,188	1,635
Total fund balances	9,413	21,188	1,635
Total liabilities, deferred inflows of resources and fund balances	\$ 9,413	21,188	1,635

See accompanying independent auditor's report.

Revenue

Economic Development	Conservation Foundation	HazMat	Flood and Erosion	Total
112,666	-	106,375	23,339	274,370
-	66,837	-	-	66,837
-	-	-	-	246
150,000	-	-	-	150,000
23,325	-	-	-	23,325
285,991	66,837	106,375	23,339	514,778

11,122	-	-	-	11,122
6,506	-	-	-	6,506
17,628	-	-	-	17,628

4,417	-	-	-	4,417
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263,946	66,837	106,375	23,339	492,733
263,946	66,837	106,375	23,339	492,733
285,991	66,837	106,375	23,339	514,778

Appanoose County

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2016

			Special
	County Recorder's Records Management	Resource Enhancement and Protection	Law Enforcement Forfeiture
Revenues:			
Property and other county tax	\$ -	-	-
Local option sales and services tax	-	-	-
Intergovernmental	-	13,671	-
Charges for service	2,565	-	-
Use of money and property	2	5	-
Miscellaneous	-	-	-
Total revenues	2,567	13,676	-
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	-	10,900	-
Governmental services to residents	2,000	-	-
Debt service	-	-	-
Total expenditures	2,000	10,900	-
Excess (deficiency) of revenues over (under) expenditures	567	2,776	-
Fund balances beginning of year	8,846	18,412	1,635
Fund balances end of year	\$ 9,413	21,188	1,635

See accompanying independent auditor's report.

Revenue

Economic Development	Honey Creek Loan	Conservation Foundation	HazMat	Emergency Medical Services	Flood and Erosion	Total
18,154	-	-	-	71,312	-	89,466
112,247	-	-	-	-	-	112,247
-	-	101,076	10,311	-	11,972	137,030
-	-	32,415	-	-	-	34,980
-	-	3,000	-	-	-	3,007
-	51,309	289,435	-	-	-	340,744
130,401	51,309	425,926	10,311	71,312	11,972	717,474
-	-	-	-	71,312	-	71,312
216,017	-	181,307	-	-	-	408,224
-	-	-	-	-	-	2,000
-	51,309	180,368	-	-	-	231,677
216,017	51,309	361,675	-	71,312	-	713,213
(85,616)	-	64,251	10,311	-	11,972	4,261
349,562	-	2,586	96,064	-	11,367	488,472
263,946	-	66,837	106,375	-	23,339	492,733

Appanoose County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2016

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets					
Cash, cash equivalents and pooled investments:					
County Treasurer	\$ -	2,520	91,871	146,536	7,922
Other County officials	61,947	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	967	2,379	51,962	3,040
Succeeding year	-	103,000	254,000	5,391,000	325,000
Accounts	-	-	-	-	-
Assessments	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	\$ 61,947	106,487	348,250	5,589,498	335,962
Liabilities					
Salaries payable	\$ -	-	586	-	-
Due to other governments	350	106,487	338,937	5,589,498	335,962
Trusts payable	61,597	-	-	-	-
Compensated absences	-	-	8,727	-	-
Total liabilities	\$ 61,947	106,487	348,250	5,589,498	335,962

See accompanying independent auditor's report.

Corporations	Townships	Auto License and Use Tax	Tax Sale Redemption	ADLM Empowerment	Other	Total
52,373	3,904	284,677	63,106	124,677	382,330	1,159,916
-	-	-	-	-	-	61,947
31,113	1,041	-	-	-	11	90,513
2,272,000	358,000	-	-	-	1,000	8,704,000
-	-	-	-	7	246	253
-	-	-	-	-	7,128	7,128
-	-	-	-	-	43,002	43,002
2,355,486	362,945	284,677	63,106	124,684	433,717	10,066,759
-	-	-	-	-	-	586
2,355,486	362,945	284,677	-	124,684	432,494	9,931,520
-	-	-	63,106	-	-	124,703
-	-	-	-	-	1,223	9,950
2,355,486	362,945	284,677	63,106	124,684	433,717	10,066,759

Appanoose County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2016

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Balances beginning of year	\$ 63,647	111,359	342,859	6,471,970	349,159
Additions:					
Property and other county tax	-	102,877	254,801	5,397,453	325,662
E911 surcharge	-	-	-	-	-
State tax credits	-	13,234	28,017	790,378	41,616
Drivers license fees	-	-	-	-	-
Office fees and collections	318,420	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	66,975	-	-	-	-
Miscellaneous	-	113	773	7,076	356
Total additions	385,395	116,224	283,591	6,194,907	367,634
Deductions:					
Agency remittances:					
To other funds	167,933	-	-	-	-
To other governments	142,157	121,096	278,200	7,077,379	380,831
Trusts paid out	77,005	-	-	-	-
Total deductions	387,095	121,096	278,200	7,077,379	380,831
Balances end of year	\$ 61,947	106,487	348,250	5,589,498	335,962

See accompanying independent auditor's report.

Corporations	Townships	Auto License and Use Tax	Tax Sale Redemption	ADLM Empowerment	Other	Total
2,403,468	322,796	277,256	42,676	170,891	349,041	10,905,122
2,262,290	228,573	-	-	-	133,018	8,704,674
-	-	-	-	-	249,889	249,889
415,301	15,940	-	-	-	1,812	1,306,298
-	-	61,901	-	-	-	61,901
-	-	-	-	-	-	318,420
-	-	3,464,816	-	-	-	3,464,816
-	-	-	-	-	19,868	19,868
-	-	-	320,060	-	11,133	398,168
6,485	-	-	-	541,934	142,594	699,331
2,684,076	244,513	3,526,717	320,060	541,934	558,314	15,223,365
-	-	136,082	-	-	-	304,015
2,732,058	204,364	3,383,214	-	588,141	473,638	15,381,078
-	-	-	299,630	-	-	376,635
2,732,058	204,364	3,519,296	299,630	588,141	473,638	16,061,728
2,355,486	362,945	284,677	63,106	124,684	433,717	10,066,759

Appanoose County

Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds

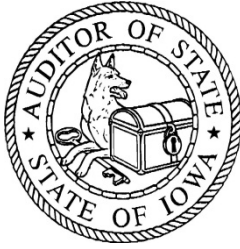
For the Last Ten Years

	Modified			
	2016	2015	2014	2013
Revenues:				
Property and other county tax	\$ 4,159,544	4,224,240	4,240,825	3,790,795
Local option sales and services tax	561,228	617,942	537,244	605,534
Interest and penalty on property tax	70,040	74,798	79,906	75,668
Intergovernmental	4,462,362	3,937,632	4,822,728	4,109,315
Licenses and permits	4,190	2,535	2,195	2,620
Charges for service	463,989	366,995	372,690	374,804
Use of money and property	24,431	54,519	15,149	17,031
Miscellaneous	427,361	378,935	257,297	408,303
Total	<u>\$ 10,173,145</u>	<u>9,657,596</u>	<u>10,328,034</u>	<u>9,384,070</u>
Expenditures:				
Operating:				
Public safety and legal services	\$ 2,136,494	2,111,976	2,001,614	1,950,127
Physical health and social services	731,769	878,427	777,826	690,490
Mental health	776,487	652,199	668,395	600,136
County environment and education	912,655	1,129,135	951,392	574,827
Roads and transportation	3,629,236	3,066,876	3,737,613	3,413,239
Governmental services to residents	577,376	457,776	464,875	440,916
Administration	877,579	915,899	1,116,712	965,137
Debt service	332,380	212,920	221,934	304,978
Capital projects	117,029	6,447	747,768	337,204
Total	<u>\$ 10,091,005</u>	<u>9,431,655</u>	<u>10,688,129</u>	<u>9,277,054</u>

See accompanying independent auditor's report.

Accrual Basis					
2012	2011	2010	2009	2008	2007
4,296,204	3,943,992	4,005,725	3,637,673	3,503,441	3,400,281
515,706	534,891	497,722	494,887	528,769	524,312
88,430	78,355	78,520	75,235	66,110	59,851
4,997,948	5,093,975	5,051,548	4,725,998	4,519,436	3,906,383
2,375	2,037	1,307	2,790	3,115	1,150
329,692	331,969	327,598	303,891	320,864	314,365
21,828	30,733	38,151	80,878	261,837	231,993
214,822	274,411	235,341	234,417	238,469	123,823
10,467,005	10,290,363	10,235,912	9,555,769	9,442,041	8,562,158
1,896,588	1,743,618	1,702,446	1,837,930	1,463,922	1,393,793
720,646	773,423	697,652	727,099	672,941	646,051
1,211,520	914,098	1,006,529	1,075,797	1,166,537	1,232,827
602,435	695,933	660,543	532,833	701,906	501,580
3,243,128	3,634,672	3,023,143	3,377,865	3,350,109	3,136,545
404,590	414,367	413,383	401,885	342,162	320,105
918,495	873,352	956,428	722,593	689,098	656,539
200,995	196,566	203,974	363,354	92,781	42,513
481,853	931,650	831,500	417,520	122,777	219,196
9,680,250	10,177,679	9,495,598	9,456,876	8,602,233	8,149,149

Appanoose County



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Officials of Appanoose County:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Appanoose County, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Appanoose County's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Appanoose County's internal control. Accordingly, we do not express an opinion on the effectiveness of Appanoose County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (F) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Appanoose County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


Appanoose County's Responses to the Findings

Appanoose County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Appanoose County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Appanoose County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

September 22, 2017

Appanoose County

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the County's financial statements.

Condition – Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	Applicable Offices
(1) Incoming mail is not opened by an employee who is not authorized to make entries to the accounting records.	Treasurer, Public Health Nurse, Recorder, Engineer, Conservation and Auditor
(2) Generally, one individual may have control over listing mail receipts, collecting, depositing, posting and daily reconciling of receipts for which no compensating control exists. The initial listing is not compared to receipt records by an independent person.	Treasurer, Public Health Nurse, Recorder, Engineer, Conservation, Auditor (Employee Group Health), Agricultural Extension
(3) A listing of mail receipts is not prepared.	Conservation and Auditor (Employee Group Health)
(4) Bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Bank reconciliations are not reviewed periodically by an independent person for propriety.	Treasurer, Auditor (Employee Group Health) and Agricultural Extension

Appanoose County

Schedule of Findings

Year ended June 30, 2016

- | | | |
|------|--|----------------------------------|
| (5) | The person responsible for the detailed record keeping of investments is also the custodian of the investments. Investments are not periodically inspected or reconciled to investment records by an independent person and an independent verification of interest earnings is not performed. | Treasurer |
| (6) | Depositing, reconciling and recording of receipts is done by the custodian of the change funds for which no compensating controls exist. | Treasurer |
| (7) | Cash drawers are shared between employees. | Treasurer |
| (8) | All individuals in tax, motor vehicle and driver's license have the ability to void receipts in Solutions/Arts (DOT system), including individuals who perform daily balancing. No report is maintained and no review is performed over voided receipts. | Treasurer |
| (9) | Responsibilities for maintaining detailed accounts receivable records are not segregated from collecting and posting receipts. | Public Health Nurse and Engineer |
| (10) | Journal entries are not reviewed and approved. | Auditor |

Cause – The County offices noted above have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the County's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – Each official should review the control activities of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Responses –

Recorder – We will work on our segregation of duties to the best of our ability. We are a small office, which makes segregation difficult.

Treasurer – This is a small County office and it is difficult, if not impossible, to have segregation of duties and responsibilities. We all share duties in balancing and daily processing. I understand the importance of segregating duties and monitoring all revenue collections and disbursements. We will have two people check daily balancing of tax, motor vehicle and driver's license. Also, two people will check each month's reconciliations. We will check tax voids daily and motor vehicle voids on a monthly basis.

Appanoose County

Schedule of Findings

Year ended June 30, 2016

Agricultural Extension – We will work to improve this.

Public Health Nurse – We have a small office with two office employees handling financial information and documentation. We will attempt to segregate duties as much as possible and establish a cross check with monies received, recorded and deposited. We will continue to have two employees handle financial information and documentation.

Engineer – With limited staff, segregation of duties is difficult. We will immediately identify ways to segregate duties over receipts.

Conservation – With limited staff, segregation of duties is difficult. We will look into ways to segregate duties.

Auditor – We will continue to make the changes necessary in order to be in compliance as much possible with our limited staff.

Conclusions –

Treasurer, Public Health Nurse – Responses accepted.

Recorder, Agricultural Extension, Engineer, Conservation and Auditor – Responses acknowledged. The offices should consider using personnel from other offices to provide additional control through review of financial transactions and reports.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the County's financial statements.

Condition – Material amounts of receivables/payables, salaries payables and capital asset/infrastructure additions and deletions were not properly recorded in the County's financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Cause – County policies do not require and procedures have not been established to require independent review of year end cut-off transactions to ensure the County's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in County employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the County's financial statements were necessary.

Appanoose County

Schedule of Findings

Year ended June 30, 2016

Recommendation – The County should establish procedures to ensure all receivables/payables, salaries payables and capital asset/infrastructure additions and deletions are identified and properly reported in the County's financial statements.

Responses –

Auditor – We will work on getting a policy developed.

Treasurer – We will not record miscellaneous receipts revenues without the department giving us supporting documents.

Conclusion – Responses accepted.

(C) Conservation Foundation

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Foundation's financial statements.

Condition – One individual opens the mail, collects and records receipts and make deposits for the Conservation Foundation. An initial listing of mail receipts is prepared; however, it is not compared to recorded receipts by an independent person. Monthly bank reconciliations, including outstanding check listings and deposits in transit, were not completed for eleven months of the fiscal year. In June 2016, the Conservation Foundation's accounting firm began completing the reconciliations.

Cause – The Conservation Foundation has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Foundation's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Conservation Foundation should review its control activities to obtain the maximum internal control possible under the circumstances. The initial listing should be compared to recorded receipts and the bank reconciliations should be reviewed monthly by an independent person, with the reviews being documented by the signature or initials of the reviewer and the date of the review.

Response – The Appanoose County Foundation will do its best to correct any problems. We will continue to use TD&T as a third party.

Appanoose County

Schedule of Findings

Year ended June 30, 2016

Conclusion – Response acknowledged. The Conservation Foundation should review control activities of its office.

(D) Computer Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the County's computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The County does not have written policies for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.

Also, the County does not have a written disaster recovery plan.

Cause – Management has not required written policies for the above computer based controls.

Effect – Lack of written policies for computer based systems could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the County's inability to function in the event of a disaster or continue County business without interruption.

Recommendation – The County should develop written policies addressing the above items in order to improve the County's control over its computer systems. A written disaster recovery plan should also be developed.

Response – We will work on getting a policy developed.

Conclusion – Response accepted.

(E) County Engineer Fuel Usage Reports

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all consumable inventory items, including fuel, by maintaining appropriate accounting records and ensuring the records are reviewed by an independent person.

Condition – Fuel usage reports are not generated and are not reviewed by an independent person.

Cause – Procedures have not been designed and implemented to ensure fuel usage reports are generated to allow for independent review of fuel usage.

Appanoose County

Schedule of Findings

Year ended June 30, 2016

Effect – When fuel usage is not adequately monitored and inadequate segregation of duties exist, the opportunity for misappropriation and undetected errors can result.

Recommendation – The County Engineer should establish procedures to require fuel usage reports be generated and reviewed timely by an independent person.

Response – We will perform an independent review of monthly fuel reports.

Conclusion – Response accepted.

(F) Credit Card Policy

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The County has credit cards for use by various employees while on County business. The County has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Cause – Adoption of a formal policy to regulate the use of credit cards has not been prioritized by the County.

Effect – Lack of written policies and procedures to regulate the use of credit cards could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – The County should adopt a formal written policy regulating the use of County credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We will continue to work on developing a comprehensive credit card policy.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Appanoose County

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – No business transactions between the County and County officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2016 for the County Extension Office did not exceed the amount budgeted.

- (10) Counties 4 Kids Early Childhood Iowa Area Board Program Coordinator – The Area Board entered into a contract for a program coordinator for the period July 1, 2015 through June 30, 2016 for a fee not to exceed \$25,045. The total amount paid to the coordinator for fiscal year 2016 was \$23,187.

At the beginning of each fiscal year, the coordinator prepares a salary allocation worksheet to allocate salary among the three programs being coordinated based upon funding received for the programs. Based upon this allocation, the coordinator allocates 42% of the salary to 4 Counties 4 Kids Area Education Agency. In addition to salary, the coordinator estimates expected office reimbursements for the fiscal year.

Appanoose County

Schedule of Findings

Year ended June 30, 2016

The coordinator does not prepare a timesheet or similar record to substantiate the hours charged to the Area Board. In addition, the coordinator does not maintain support for the allocation of the coordinator's salary between programs and funding categories.

Recommendation – The program coordinator should prepare and maintain a timesheet or similar record to support the hours charged to the Area Board. This timesheet or similar record should be approved by an independent person. In addition, the program coordinator should prepare a time study or other support for the allocation of salary between programs and funding categories.

Response – The Early Childhood Iowa Area Director position is not an hourly position. The three projects that “employ” the Director, including two DECAT projects, agree to pay a specified amount of the Director's agreed upon salary and benefit costs. The reimbursements to Albia Schools are prorated to the three projects based on their agreed upon annual payment amounts.

The ECI Area Director does keep a time study. From the time study, he puts together a regular report that is reviewed and approved by the Boards of the three projects that “employ” him. His activity is approved after the fact of any salary payment. The activity reports are for the review of project Boards, but are not the basis used for the payment of salary nor for reimbursement by the three “employing” projects.

Conclusion – Response acknowledged. The program coordinator should prepare and maintain a timesheet or similar record to support the hours charged to the Area Board. This timesheet or similar record should be approved by an independent person.

- (11) 4 Counties 4 Kids Early Childhood Iowa Area Board – The annual financial report submitted to the Iowa Department of Management for fiscal year 2016 did not reconcile to the Area Board's financial activity. Accrued expenditures reported for the annual financial report included \$67,023 of fiscal year 2015 expenditures reported for fiscal year 2016. Fiscal year 2016 accrued expenditures of \$65,537 were reported as fiscal year 2017 activity. The net amount of the fiscal year 2016 understatement was \$1,486.

Recommendation – The annual financial report should be prepared from the County's financial records. Accrued expenditures should be reviewed by the Area Board to ensure proper fiscal year coding and reporting by the County.

Response – The Early Childhood Iowa Area Director reconciles to the monthly Fiscal Agent report provided by the Appanoose County Auditor when preparing the annual report submitted to the Department of Management.

The Director will work with the Appanoose County Auditor to ensure previous year accruals and current year activities are entered correctly in the County books.

Conclusion – Response accepted.

Appanoose County

Schedule of Findings

Year ended June 30, 2016

- (12) Employee Group Health – The County provides employees health insurance and other benefits through a self-insured benefit plan. Chapter 509A.15 of the Code of Iowa requires the County to obtain an actuarial opinion issued by a fellow of the Society of Actuaries which attests to the adequacy of reserves, rates and the financial condition of the plan. The County did not obtain an actuarial opinion for fiscal year 2016.

Recommendation – The County should obtain an actuarial opinion, issued by a fellow of the Society of Actuaries, as required.

Response – The actuarial opinion was requested but has not been completed yet.

Conclusion – Response accepted.

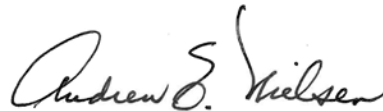
- (13) Special Report – The Office of Auditor of State is conducting additional procedures related to the commingling of operations, collections and disbursements of the Appanoose County Conservation Board and the Appanoose Conservation Foundation. A separate report will be released at a later date addressing these issues.

Appanoose County

Staff

This audit was performed by:

Tammy A. Hollingsworth, CIA, Manager
Selina V. Johnson, CPA, Senior Auditor II
David A. Cook, CPA, Staff Auditor
Chad C. Lynch, Staff Auditor
Mark D. Newhall, Staff Auditor
Libby C. Lamfers, Assistant Auditor
Jason J. Miller, Assistant Auditor
Mitchell W. Shipman, Assistant Auditor
Rachel E. Sigmon, Auditor Intern

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State